

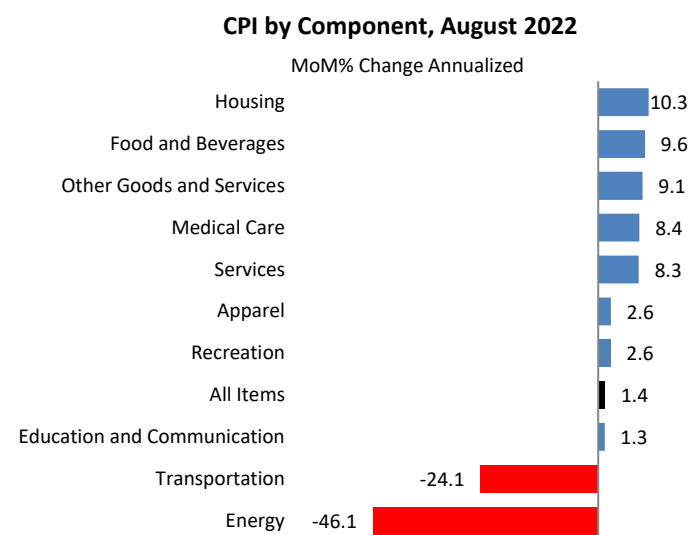
Date	Indicator	For	Estimate	Consensus*	Previous Period
19-Sep-2022	NAHB Housing Market Index	Sep	47	48	49
20-Sep-2022	Housing Starts	Aug	1430k	1460k	1446k
20-Sep-2022	Building Permits	Aug	1600k	1621k	1685k
21-Sep-2022	Existing Home Sales	Aug	4.68m	4.73m	4.81m
21-Sep-2022	FOMC Rate Decision (Lower Bound)	Sep 21	3.00%	3.00%	2.25%
21-Sep-2022	FOMC Rate Decision (Upper Bound)	Sep 21	3.25%	3.25%	2.50%
21-Sep-2022	Current Account Balance	2Q	-\$260.0b	-\$258.4b	-\$291.4b
22-Sep-2022	Initial Jobless Claims	Sep 17	221k	NA	213k
22-Sep-2022	Leading Index	Aug	-0.1%	0.0%	-0.4%
22-Sep-2022	Kansas City Manf. Activity	Sep	5	NA	3
23-Sep-2022	S&P Global US Manufacturing PMI	Sep P	51.3	51.3	51.5
23-Sep-2022	S&P Global US Services PMI	Sep P	45.5	45.0	43.7
23-Sep-2022	S&P Global US Composite PMI	Sep P	NA	NA	44.6

Inflation And The Fed - Next Week's Meeting Will Be Telling

The August CPI report released this week was the last critical data release before the FOMC updates their economic and Fed funds rate forecasts in the Summary of Economic Projections, and decides whether to hike the Fed funds target rate by another 50, 75, or 100 basis points next Wednesday.

Unfortunately, both the headline CPI and core CPI both came in well above expectations in August, despite a sharp 11% decline in gasoline and 5.0% decline in energy prices on the month. The big surprise was centered on the sharp acceleration in inflation for a broad cross-section of services, including medical care and housing. Inflation in these categories is much stickier than goods, foods, and energy inflation, and underlines the fact that the U.S. inflation problem is very broad-based and may not be easily vanquished just from a sharp correction in energy and commodity prices.

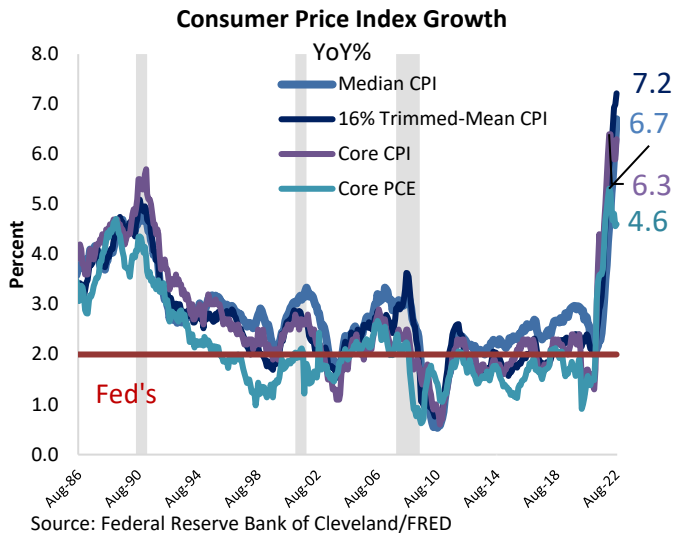
Housing, Services, and Food Are Still Rising Sharply



Source: Bureau of Labor Statistics

To illustrate that it is still too early for the Fed to take their foot off the monetary brake, we need to look beyond the tradition core CPI and PCE price inflation measures that already peaked back in March 2022 and consider alternative measures. Alternative measures of core inflation constructed by the Cleveland Fed, the Median CPI and 16% trimmed-mean CPI, continued to rise to fresh new highs in August to 7.2% and 6.7% respectively.

Some Core Inflation Measures Continue To Rise



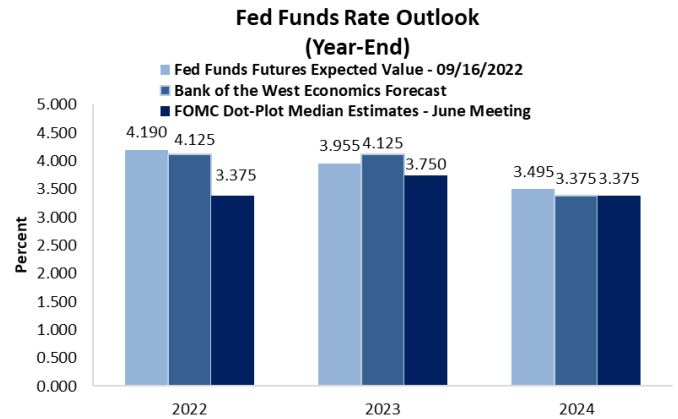
The message from these alternative measures of core inflation suggest the Fed’s inflation problem may actually be getting worse, continuing to spread more broadly across the economy. As high inflation becomes more broad-based and entrenched over time, it will make the Fed’s job all that much harder to bring price gains back down to their medium-term target of 2.0%. Bottom-line, the Fed has more work to do on price inflation and will ignore any collateral damage that may occur in employment and economic activity for the rest of the year and into 2023.

High broad-based consumer inflation has to be a big disappointment for the Fed and underscores the messages we received from Jerome Powell and other FOMC members in recent weeks that we need to brace for another outsized rate hike from the Fed in September and expect more Fed rate hikes to come. We already hiked our Fed funds rate forecast last week on the back of Powell’s hawkish speech to the CATO Institute and now in the wake of the August inflation reports we hiked our Fed Funds rate forecast by another 25 basis points to a range of 4.00 to 4.25% by year-end and then expect the Fed funds rate to hold above 4.0% over the course of 2023 as the Fed waits for their monetary medicine to take effect on bringing down price inflation.

Breaking it down by FOMC meeting, we expect a 75 basis point rate hike next Wednesday, a 50 basis point hike in

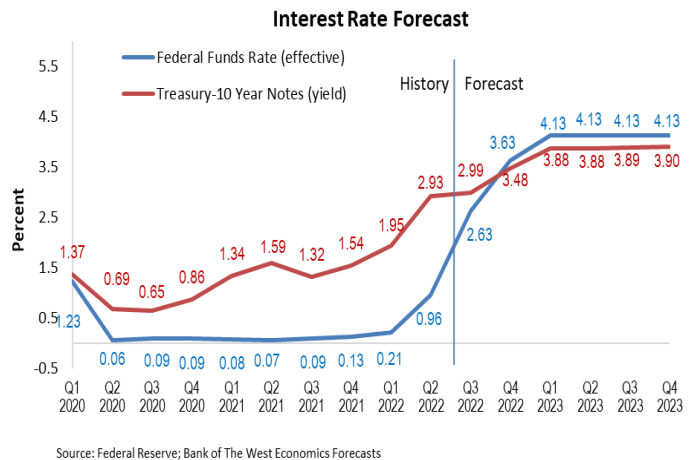
November, and another 50 basis point hike in December. While we don’t anticipate any additional rate hikes in 2023, we do see more upside risks for additional Fed rate hikes than downside risks.

Fed Funds Rate To Move Over 4.0% By Year-End



Our new higher Fed funds rate forecasts will ripple across all our interest rate projections for 2023 and beyond. Long-term rates are actually little changed from previous projections as we now see a deeper inversion in the Treasury yield curve as the Fed artificially pushes up the short-end of the curve in 2023.

Fed Engineers A Deeper Treasury Yield Curve Inversion



So pull up a seat and grab your popcorn, Jerome Powell and the FOMC are the stars of the show next week and the markets, investors, analysts, and average Americans will be all watching closely to what they do and what they plan to do to bring inflation to heel. All of us have a stake in how this movie ends.

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Key Economic and Interest Rate Forecasts

Economic Data	History								Forecast				Yr/Yr % chg or Annual Avg.			
	2021.1	2021.2	2021.3	2021.4	2022.1	2022.2	2022.3	2022.4	2023.1	2023.2	2023.3	2023.4	2020	2021	2022	2023
Real GDP*	6.3	6.7	2.3	6.9	-1.6	-0.6	0.9	0.3	0.5	0.5	0.8	0.8	-3.4	5.7	1.6	0.5
Personal Consumption Expenditures*	11.4	12.0	2.0	2.5	1.8	1.5	1.0	0.8	1.0	1.3	1.4	1.4	-3.8	7.9	2.3	1.1
Non-residential Fixed Investment*	12.9	9.2	1.7	2.9	10.0	0.0	8.6	1.6	0.6	0.4	0.6	0.9	-5.3	7.4	4.9	1.7
Private Housing Starts (000s units)	1,581	1,591	1,569	1,679	1,720	1655	1420	1380	1350	1320	1300	1280	1,395	1,605	1544	1313
Vehicle Sales (mill. Units, annualized)	16.8	16.9	13.3	12.9	14.1	13.3	13.3	13.5	13.6	13.6	13.7	13.7	14.5	15.0	13.6	13.7
Industrial Production*	3.1	6.5	3.5	4.8	4.7	5.3	1.5	1.0	0.8	0.8	0.5	0.5	-7.0	4.9	4.1	1.1
Nonfarm Payroll Employment (mil.)	143.7	145.2	146.9	148.6	150.4	151.6	152.7	153.2	153.5	153.7	153.9	154.1	142.1	146.1	151.9	153.8
Unemployment rate	6.2	5.9	5.1	4.2	3.8	3.6	3.6	3.7	3.9	4.1	4.3	4.5	8.1	5.4	3.7	4.2
Consumer Price Index* (percent)	4.1	8.2	6.7	7.9	9.2	10.5	5.5	4.0	3.9	3.6	3.0	2.5	1.2	4.7	8.0	4.2
"Core" CPI* (percent)	1.4	7.8	5.3	5.6	6.5	6.6	6.3	4.8	4.2	3.7	3.0	2.5	1.7	3.6	6.2	4.4
PPI (finished goods)* (percent)	13.7	11.6	12.9	13.7	18.3	22.3	-2.3	-1.3	2.0	1.6	1.7	1.8	-1.3	8.9	13.0	1.8
Trade Weighted Dollar (Fed AFE)	103.4	102.9	105.0	107.0	108.4	113.7	118.0	119.2	118.6	118.0	117.6	117.4	109.0	104.6	114.8	117.9
Crude Oil Prices -WTI (\$ per barrel)	58	66	70	76	91	104	92	89	87	86	85	80	39	67	94	85

*Quarterly Data Percent Change At Annual Rate; Annual Data Year-on-Year % Chg, or Annual Average.

Financial Data	History								Forecast				Annual Average			
	2021.1	2021.2	2021.3	2021.4	2022.1	2022.2	2022.3	2022.4	2023.1	2023.2	2023.3	2023.4	2020	2021	2022	2023
S & P 500	3,866	4,184	4,422	4,602	4,464	4,106							3,218	4,273		
Dow Jones Industrial Average	31,551	34,121	34,916	35,517	34,679	32,688							26,891	34,055		
Federal Funds Rate (effective)	0.08	0.07	0.09	0.13	0.21	0.96	2.63	3.63	4.13	4.13	4.13	4.13	0.37	0.09	1.86	4.13
Treasury-3 Month Bills (yield)	0.05	0.03	0.05	0.05	0.31	1.10	2.61	3.58	4.08	4.08	4.08	4.08	0.36	0.04	1.90	4.08
Treasury-2 Year Notes (yield)	0.13	0.17	0.22	0.50	1.46	2.72	3.23	3.81	4.11	4.11	4.12	4.13	0.39	0.26	2.81	4.12
Treasury-5 Year Notes (yield)	0.62	0.84	0.80	1.11	1.83	2.96	3.09	3.60	3.98	3.98	3.99	4.00	0.54	0.84	2.87	3.99
Treasury-10 Year Notes (yield)	1.34	1.59	1.32	1.54	1.95	2.93	2.99	3.48	3.88	3.88	3.89	3.90	0.89	1.45	2.84	3.89
Treasury-30 Year Notes (yield)	2.09	2.26	1.93	1.95	2.26	3.06	3.18	3.58	3.97	3.96	3.95	3.96	1.56	2.06	3.02	3.96
Prime Rate	3.25	3.25	3.25	3.25	3.33	4.08	5.75	6.75	7.25	7.25	7.25	7.25	3.54	3.25	4.98	7.25
SOFR Overnight Rate	0.04	0.02	0.05	0.05	0.09	0.69	2.03	3.39	3.95	3.96	3.98	3.99	0.36	0.04	1.55	3.97
SOFR 3-Mo. CME	0.02	0.05	0.06	0.09	0.34	1.32	2.69	3.70	4.18	4.18	4.18	4.19	NA	0.09	2.01	4.18
Libor 3-Mo. U.S. Dollar	0.20	0.16	0.13	0.16	0.53	1.54	2.87	3.81	4.26	4.26	4.26	4.26	0.65	0.16	2.19	4.26
Mortgage-30 Year (yield)	2.88	3.00	2.87	3.08	3.82	5.27	5.49	5.98	6.28	6.28	6.19	6.15	3.12	2.96	5.14	6.23
BAA Corporate (yield)	3.49	3.55	3.24	3.30	3.97	5.02	5.29	5.78	6.18	6.20	6.21	6.25	3.61	3.39	5.02	6.21

Source: Bank of the West Economics, Bloomberg, Federal Reserve